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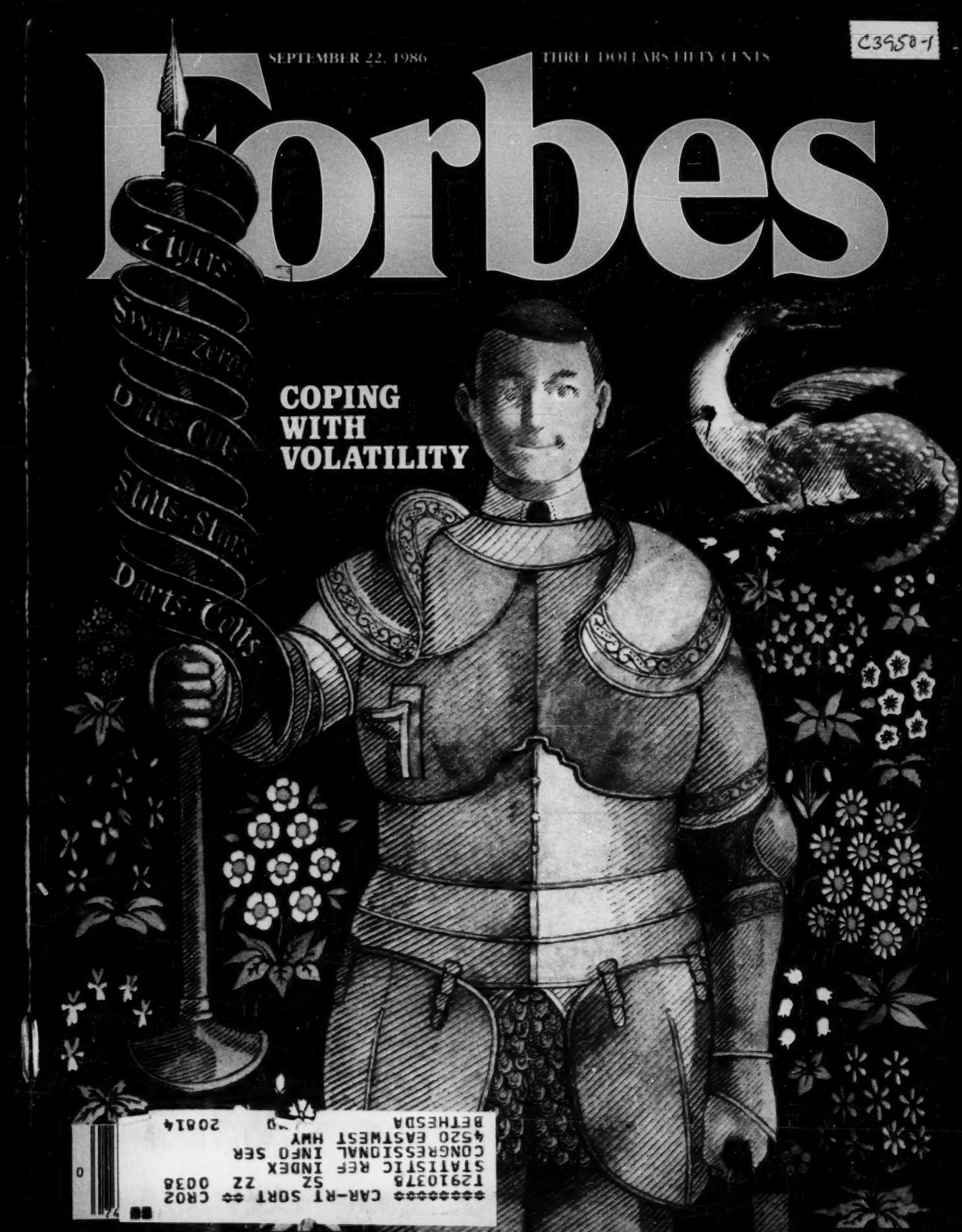

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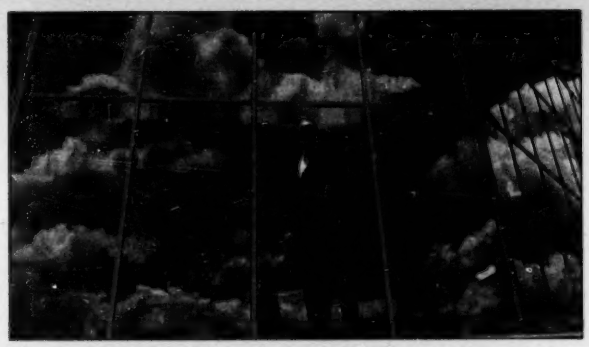

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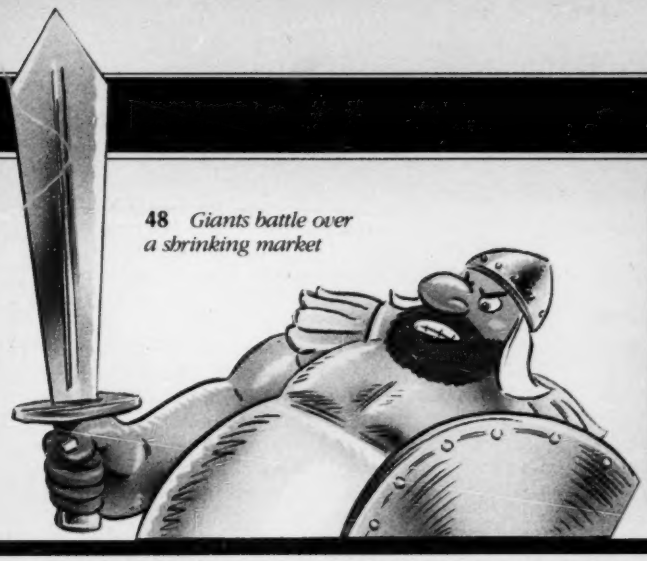

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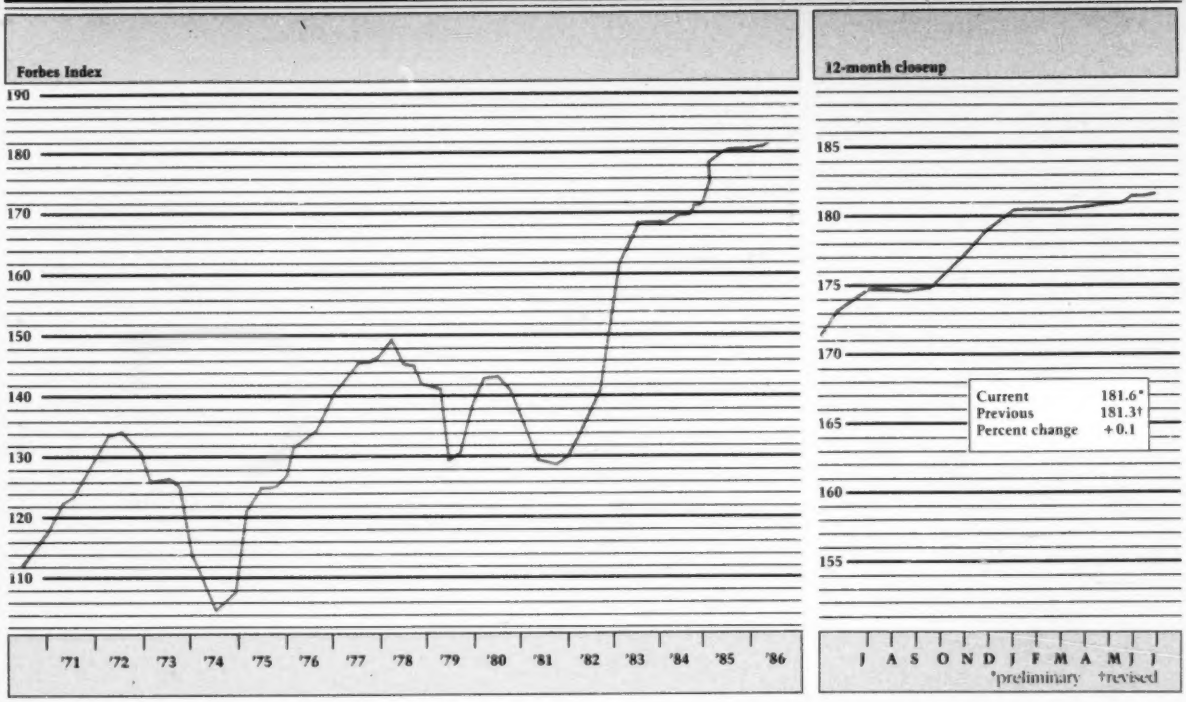
The Forbes Index



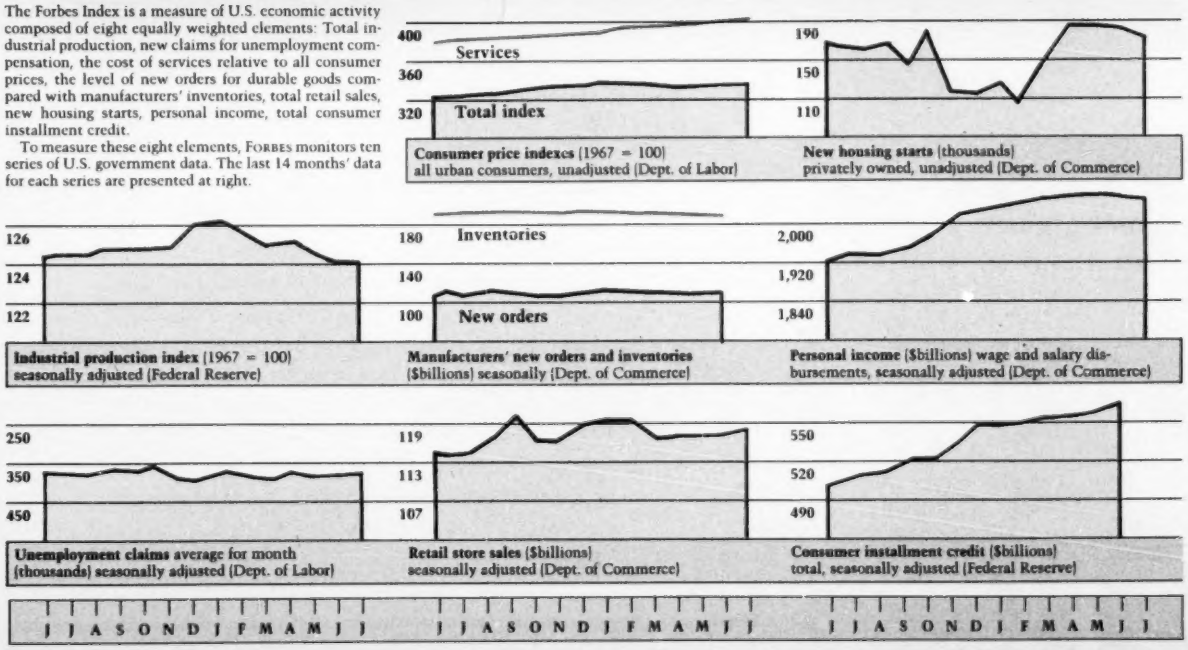
Slow boat to growth. The Forbes Index inched up 0.1% during the latest reporting period. From January through July the Index grew at a lackluster 2.7% annual rate, compared with a 3.8% rate for the same period in 1985. Pushing the Index up was a technical factor (a 0.3% rise in the ratio of services to the total Consumer Price Index) and a 0.1% drop in new unemployment claims.

Although new housing starts stand some 9.3% higher than they did in July 1985, they recorded a 4.5% drop from June to July of 1986, despite the steep decline in mortgage rates. Meanwhile, personal income decreased 0.2% in July. Coupled with the historically high level of consumer debt, that indicates consumer spending may tail off in the coming months.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Forbes

What sent gold climbing? Nothing so fundamental as inflation. So don't consider demand alone. Look at the supply side.

A yen for gold

By Edwin A. Finn Jr.

If South Africa and the recent price action have you thinking about gold, think about this: South Africa is fast becoming less important as a gold producer. Other countries around the world are digging new mines and pushing more bullion into the market every day.

Already South Africa's share of world gold output has dropped to 41%, down from 67% two decades ago. By 1990 it could be as little as 33%, regardless of politics.

One reason widely cited for the price runup was fears that gold shipments from South Africa would be cut off. An unlikely possibility that, but even if it occurred it would no longer mean what it once would have meant to the price of gold.

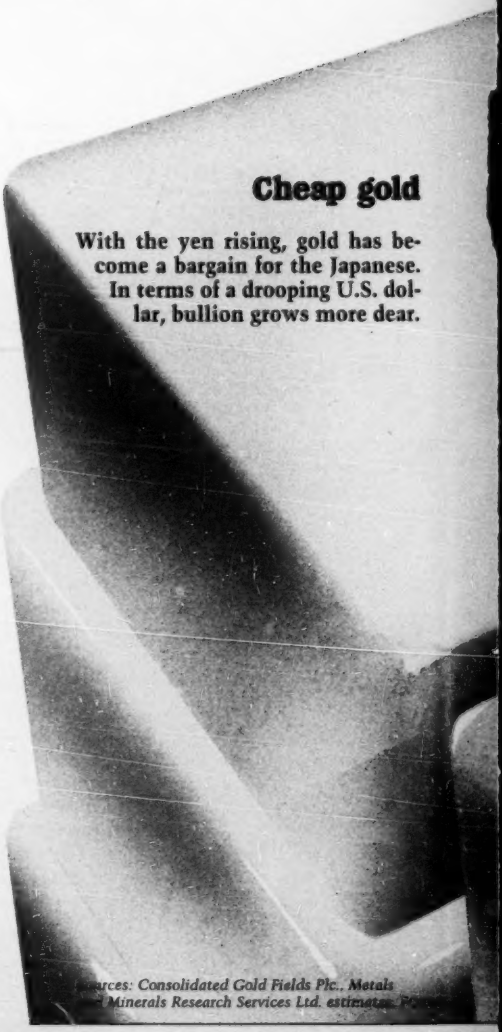
Since 1980, gold production outside South Africa has been expanding at around 13% annually *(see chart)*. Why the modern-day gold rush? Well, to put it simply, the price is right.

South African mines, with rich grades of ore and low wages, can remain profitable at prices as low as $160 an ounce. Mining elsewhere tends to be more costly and needs a higher price. But, since 1979, gold prices have remained above what's known as the threshold range—between $250 and $300 an ounce. That makes it feasible to produce gold and dig new mines in such countries as China, Brazil and the U.S.

This mining expansion is heralding a new era in gold investing, according to Reginald Eccles, managing director of Metals & Minerals Research Services of London. Eccles argues that gold prices will no longer be so heavily swayed by South Africa. Instead, Eccles contends, bullion prices will be determined largely by commercial demand and by output in the world's newly important gold-producing countries.

The Soviets, meanwhile, seem increasingly eager to sell bullion to the West, especially with oil prices so low. Late last year, when oil prices slumped, the Soviets became heavy gold sellers because they needed cash to make up for fallen oil receipts. The selling binge continued into early 1986, though it has since abated somewhat.

Clearly, there's plenty of gold to go around. Eccles estimates that after coin and jewelry makers' needs were met and industrial users were satisfied last year, 55 fresh tons of gold were available to investors. That's $683 million worth. The annual surplus could reach 195 tons this year and 260 tons in 1988. This at a time



Cheap gold

With the yen rising, gold has become a bargain for the Japanese. In terms of a drooping U.S. dollar, bullion grows more dear.

...urces: Consolidated Gold Fields Plc., Metals ... Minerals Research Services Ltd. estimates

when inflation appears tame.

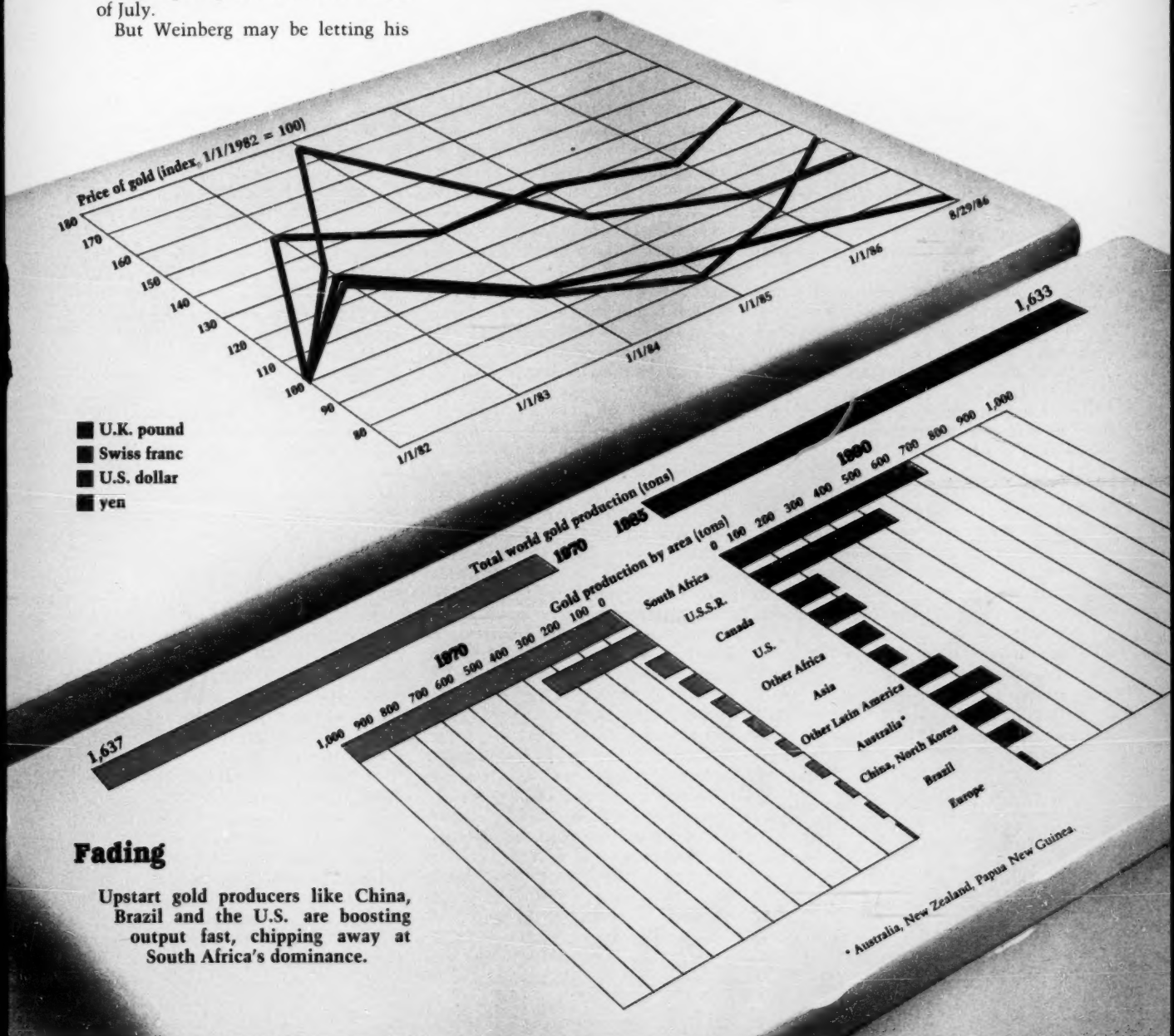
There will always be investors who, nervous about one thing or another, want to buy gold. Robert Weinberg, precious metals analyst at James Capel & Co. in London, says his phone has been buzzing lately with inquiries about gold. "We've heard from investors we haven't heard from since 1980," he says. "With people nervous about stock markets and bond markets, and the possibility of inflation creeping back, I think it's going to continue."

Weinberg is still bullish on South African gold shares, some of which have jumped up 40% since the middle of July.

But Weinberg may be letting his hopes influence his thinking. Behind the recent strength in gold are several factors that will probably prove temporary. Weakness of the dollar, for example. While the price of gold has risen sharply in dollars this year, that barely makes up for what the dollar has lost since January against other currencies, such as the German mark and the Swiss franc.

In terms of the Japanese yen, gold is actually far cheaper than it was at the beginning of the year. The rise in the yen has made gold incredibly cheap in Tokyo *(see chart)*. The Japanese bought 435 tons in the first six months of this year, more than double what they bought all last year. For Japanese investors, with plenty of dollars at their disposal, gold thus becomes a nice hedge.

That kind of boost in demand looks like a one-shot event, unlikely to recur—barring a collapse of the dollar. Let's put it this way: Once the Japanese satisfy their yen for gold, there is little in sight that could push the price of gold a lot higher. The fundamental forces at work in the world economy remain deflationary, and deflation is not good for gold under current circumstances. ■



Fading

Upstart gold producers like China, Brazil and the U.S. are boosting output fast, chipping away at South Africa's dominance.

OPEC's attempt to hold the world's oil users to ransom failed, but the next oil crunch will be rougher and probably irreversible.

We are living off our capital

By Norman Gall

WORLD OIL PRODUCTION peaked at 65.7 million barrels daily in 1979, the year of the second oil shock and $30-plus oil. Under the pressure of high prices, production fell to 56.4 million by 1983, and now OPEC is seeking to trim it by another 3.6 million barrels in an effort to halt the collapse of prices.

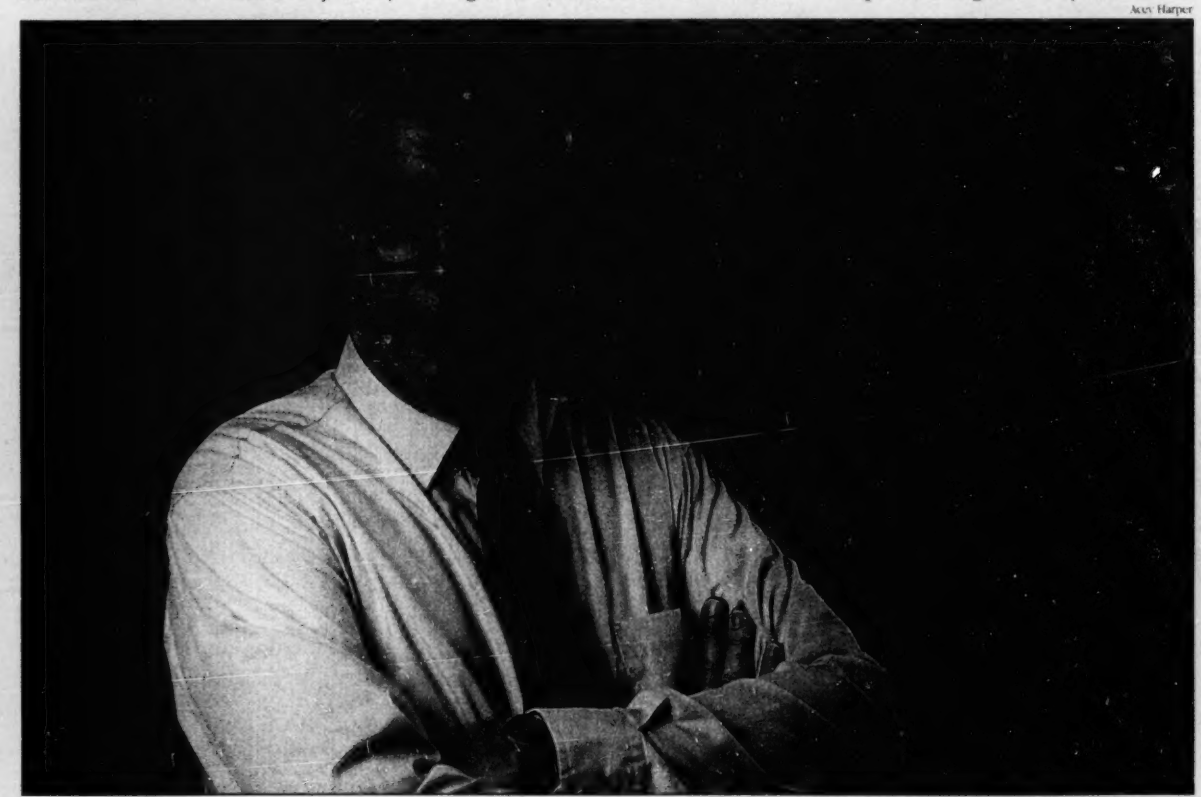
But here is something the world ought not to forget: Regardless of price, oil is being consumed faster than it is being discovered. We are living off stored wealth. Even if OPEC succeeds in holding down production, world consumption will still be at an annual rate of nearly 20 billion barrels a year, about 5 billion more than are being found. (While 35 billion barrels of oil were found yearly in the 1950s and early 1960s, annual discoveries now are down to barely 40% of that.)

This living off inventory persists despite improvements in oil-finding technology and nearly fivefold growth in world investment in exploration and development from 1974 to 1982.

Isn't this an old story? Hasn't the oil industry complained in the past that we were running out of oil? Yes, but this time is different, argues David R. Kingston, a recently retired senior geologist with an Exxon unit in Houston. Things are different, he says, because past fears of shortage were alleviated by new geophysical techniques that led to discoveries of more giant pools of oil. Says he: "Huge amounts of oil were found in big basins lying beneath surface anticlines [arching folds]." But further such major discoveries are unlikely.

Explains Kingston: "By the 1960s

Acey Harper



Petroleum geologist Joseph Riva
"The Middle East will have to make up the difference—producing half the world's oil by around 2005."

and 1970s companies were drilling in basins that didn't look very good, in central Africa and the Chaco of Bolivia and Paraguay, just on the chance that they might have overlooked something. A group of us, known at Exxon as the Rover Boys, wandered around the sub-Saharan regions. By now there are few unexplored basins left. The offshore continental margins are being intensively worked. As you go further offshore, the geological prospect becomes poorer."

Meanwhile, estimates of undiscovered resources are being cut. "We had great hopes for the Overthrust Belt in the Rockies, but it hasn't yielded as expected," says Charles D. Masters, in charge of the U.S. Geological Survey's worldwide estimates. "Our estimates for Alaska are likely to be cut, to 5 billion to 10 billion, from 10 billion to 20 billion barrels, because the biggest prospects didn't work out.

"A $1.6 billion dry hole was drilled in 1983 in the Mukluk well, on an artificial island built in the Beaufort Sea to protect against ice, into an extremely promising structure similar to Prudhoe Bay, the biggest U.S. producing field. The Beaufort structure was gigantic, but the oil had escaped.

"In Alaska's Navarin Basin, 600 miles offshore and as big as the Gulf of Mexico, nine dry holes were drilled by Exxon, Arco and Amoco. When you drill so many dry holes into a big basin, it's a huge disappointment.

"On top of this, Shell in 1984 drilled four wells in the deepest water ever penetrated by oil exploration, going as deep as 7,000 feet in the Baltimore Canyon off the Atlantic Coast. The four holes were dry."

Among the the best-informed people on the subject of world oil reserves is Joseph P. Riva, a veteran geologist who now works in Washington at the Congressional Research Service of the Library of Congress and the author of *World Petroleum Resources and Reserves.* Riva explained to FORBES why the world may have less recoverable oil than it formerly thought.

Riva: If there's no political crisis, the world could produce at current levels —20 billion barrels yearly—for about another 36 years. [But] the geographical distribution of production is going to change very fast. Last year the Middle East produced 10.3 million barrels daily, or 19% of the world's oil. It has 57% of all proven reserves and one-fourth of undiscovered resources. As output in other areas declines, especially as the Western Hemisphere production falls fast, the Middle East will have to make up the difference.

By around 2005 the Middle East will be producing 26 million barrels daily, or half the world's oil, from its enormous resources. By 2021 the Middle East will be producing three-fourths. But by then [Middle Eastern] capacity would be so strained that world production would start falling by 2022.

But U.S. production is still close to 9 million barrels per day. What about Mexico, Venezuela and Canada? What about that billion-barrel field that Occidental found last year beneath the eastern plains of Colombia?

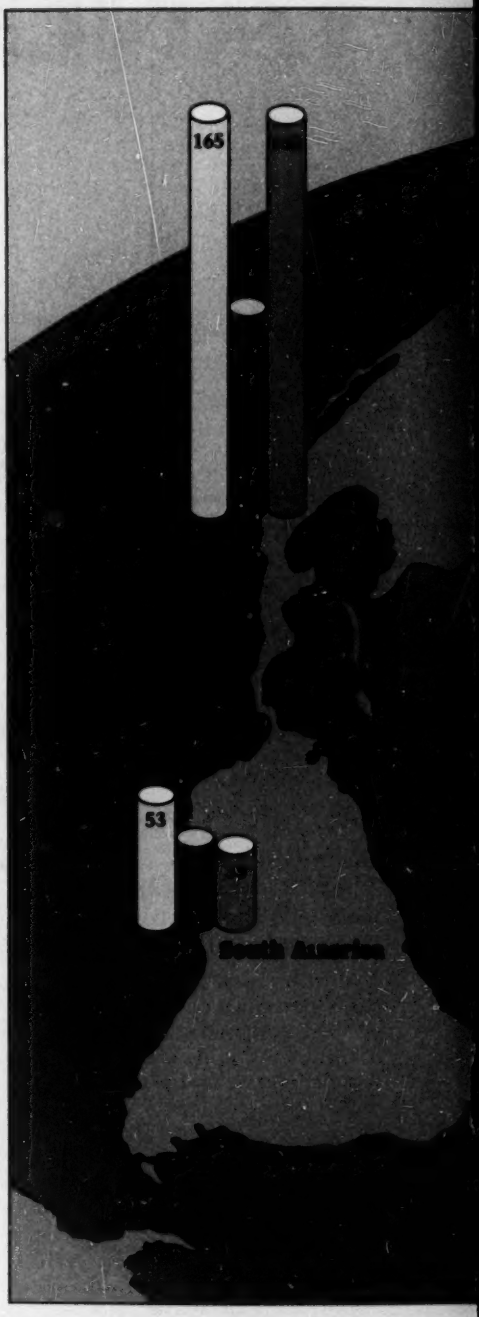
Riva: You must look at these things in perspective. The world is consuming the minimum recoverable reserves of four supergiant fields every year. Each supergiant must have at least 5 billion barrels proven, and only 37 of them have been found in the world. Of these, 26 are in the Middle East.

The last U.S. supergiant found was Alaska's Prudhoe Bay in 1968. Since then only two more supergiant fields were found in the world, both in Mexico. Production at Prudhoe Bay, with 9.5 billion barrels proven, has peaked at 1.5 million barrels daily and will begin declining by 1988-89. Without this supergiant field, the fall in U.S. production since 1970 would have been far greater.

The best geological prospect in North America is the huge undrilled Marsh Creek anticline in Alaska's Arctic National Wildlife Range, east of Prudhoe Bay. Some of these are Indian lands. Environmentalists so far have blocked drilling in the area. Marsh Creek could be another Prudhoe Bay, with a potential 10 billion barrels, which could stretch out Alaska's production at present levels for another five or ten years. Or it could be another Mukluk, a marvelous structure from which the oil escaped millions of years ago. You can't tell until you drill.

But even discovery of another supergiant field won't change the overall resource picture. As it now stands, U.S. production will fall by another 17% to 20% by 2000 and start falling much faster after that. Oil company presidents have told me that they have basically given up on finding large amounts of new oil in the lower 48 states. That's part of the reason companies now are laying off geologists and engineers.

Higher prices would keep more drilling rigs working and more oil pumping for now. They would delay a steep production fall for a few more years. But the fall would be much steeper later on.

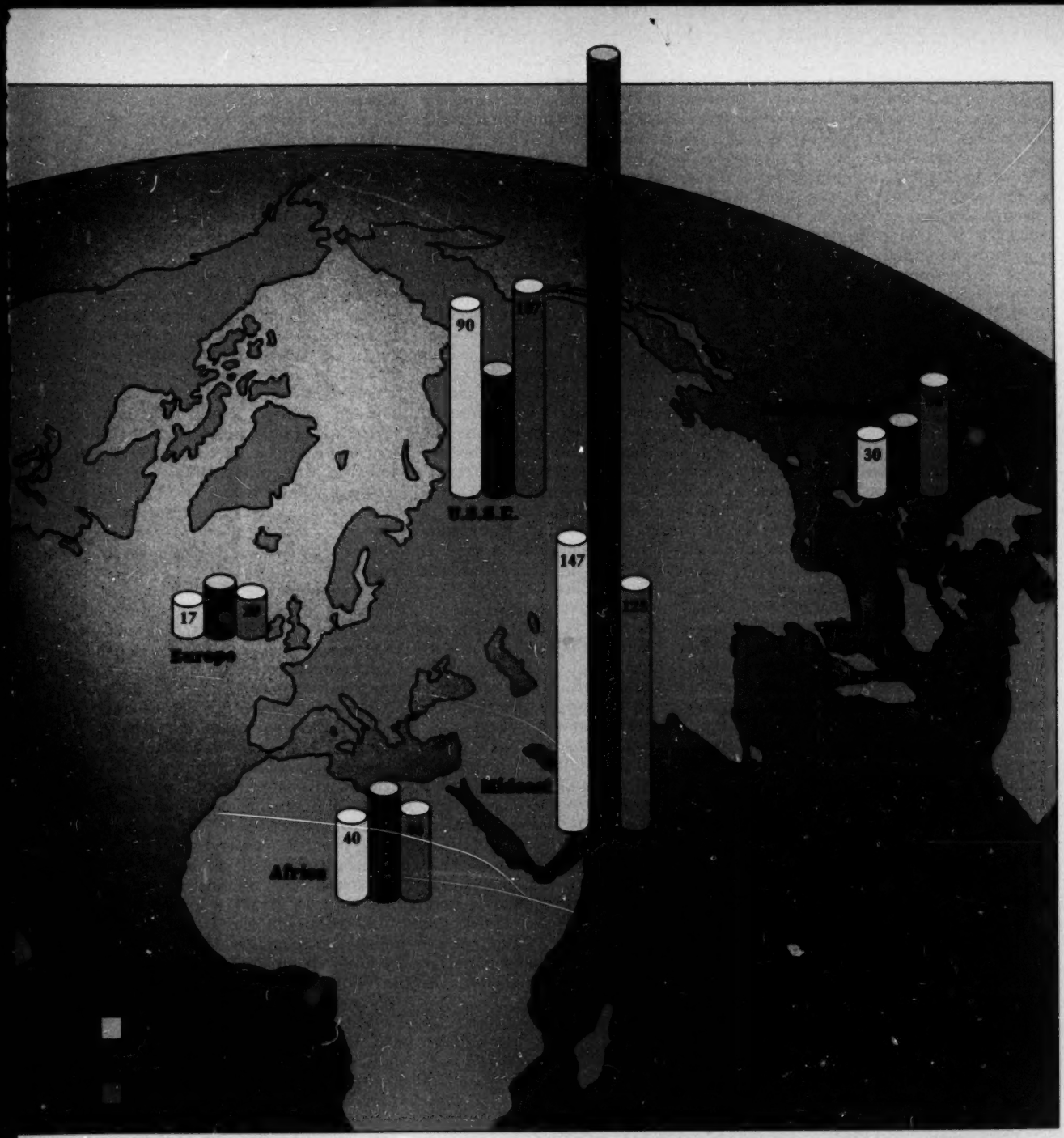


Mexico?

Riva: The U.S. consumes about 15 million barrels daily, while Mexico last year produced only 2.8 million. Mexico probably can't produce more than 100,000 to 200,000 more than they're pumping now.

But in 1983 you put Mexico's reserves at 57 billion and wrote: "Mexico could considerably increase oil production."

Riva: The 57 billion was Mexico's official reserve estimate, which was exaggerated. We had no independent way of verifying this claim. The overesti-



mation of reserves came at the time Mexico was borrowing lots of money. Since then the U.S. Geological Survey and the Department of Energy did their own estimate and put Mexico's reserves at 26.5 billion.

How much longer can Mexico produce at present rates?

Riva: Lack of investment today is shortening the life of Mexico's best fields, which are being produced too fast. They don't have money to build enough platforms in their offshore fields in the Gulf of Mexico, so too few platforms each are producing too much oil. In the short term you get more money for your investment. The Mexicans' reasoning is that this is all we can afford. We've got to get as much money as we can because we're in such dire straits financially. So they're producing two or three times faster than they should to maximize the lifetime of the field and the amount of oil lifted. Engineers who've been on those offshore platforms tell me the platforms are shaking from producing at such high rates.

Today Mexico's big onshore fields, such as the Reforma, already are being water-invaded, even though they were discovered as recently as 1972. The new supergiants, the Bermudez field onshore and Cantarell offshore, are ancient reefs with geology much like the Golden Lane, Mexico's bonanza during the First World War, which produced one-fourth of the world's oil in 1921 but then fizzled out quickly. Today Mexico has bigger reserves, but it's also producing much faster.

What about the Soviet Union, a very old

producer? In Marco Polo's time, 700 years ago, naphtha was exported by camel from the Caucasus-Caspian Sea region.
Riva: The Soviet Union came to lead the world in oil production in 1974 and in gas production in 1984, in both instances overtaking the U.S. During the 1970s it raised its oil output from 7 million barrels daily to 12 million. It drew on previous big discoveries to cut its reserves/production ratio from 23-to-1 to 13-to-1. It peaked at 12.3 million barrels daily in 1983 and now is in decline. The fall was 2.6% in 1985 and may reach 5% yearly in about five years. Gorbachev and company are trying hard to reverse or at least slow this decline.

About a third of the enormous Soviet oil production comes from two supergiant fields: Romashkino, discovered in 1948 in the Volga-Urals, which is the world's fourth-largest oil province, and Samotlor, discovered in 1966 in West Siberia, the third-largest province. Output from both supergiants is falling. There isn't much chance of other supergiants being found, given the amount of drilling already done in their good oil basins.

The Soviets feel the onshore Vilyuy Basin in Eastern Siberia might have lots of oil, but the source rock is pretty deep, making the area gas-prone instead of oil-prone. They have found mainly gas in the basins they've drilled. They need oil, not gas. Their gas reserves already are six times those of the U.S.

The trouble with finding oil in many smaller fields to replace the few giants and supergiants is that the Russians are not organized to produce from many small fields. They don't have the mom-and-pop drilling companies we have in the U.S., which are always poking around our basins and are always happy to find a small field.

Geologists have been wrong many times before.
Riva: If you're in a room with geologists and lawyers and economists, the geologists always seem pessimistic about future discoveries of big fields, while the lawyers say you can find them if the laws are right, and the economists say you can find them if the price is right.

Nothing seems impossible unless you have to do it yourself. The geologists have to find the oil prospects. There's a consensus in our profession that we're now seeing diminishing conventional oil horizons. In the past there always was unexplored territory. But now we recognize that there are about 600 sedimentary basins in the world. Most but not all of these basins have been drilled. Of the 600 basins, about 400 have been looked at extensively. Of these 400, only a very small number produce large quantities of oil. Most of these basins are barren. There might be 200 basins left that have been drilled either sparsely or not at all, although they're known geologically in terms of their rock volumes, depositional history and structural configurations.

Most [of the overlooked or sparsely drilled basins] are in difficult regions like the Arctic or under deep water. Or they're in areas closed to drilling for political reasons, as China was until recently. The thing about these basins is that they're mainly small. They're mostly in geological environments that are not conducive to the scale of oil generation and entrapment that creates big fields. In nearly all assessments of future oil discovery and recovery, these basins are given chances. Numbers are assigned indicating that oil and gas may be produced from them some day. But the expectations are not high. When these basins are drilled—like Navarin off Alaska or the Baltimore Canyon—the results tend to be disappointing.

Last year Petrobras, the Brazilian state oil company, found a giant field in the South Atlantic under 3,000 feet of water. Doesn't this mean that there still are substantial oil resources on the world's continental slopes that haven't been touched?
Riva: Technically speaking, it's difficult and expensive to drill for oil and to establish platforms and other production systems in deep water. Today no oil is being produced from those depths anywhere in the world. It will be hard for Petrobras to get that oil.

What does the looming scarcity mean for the future?
Riva: People will be surprised, as they always are, especially since prices now are so low. There's no greater economic resource concentration than a supergiant field. It's the kind of thing civilizations are built on. Since it looks as if few other supergiants will be discovered, people are going to be poorer with scarcity, unless there's a technological breakthrough.

What will happen is that more human and material resources will have to be committed to produce energy. A single well in a supergiant field can produce 10,000 or 20,000 barrels daily at a trivial cost in money, involving the labor of very few people. The world still has huge resources in nonconventional oils, which can't flow from a well. In Venezuela's Orinoco heavy oil belt, where a trillion barrels are said to be, you have to burn a barrel to get two to the surface. Each well may produce only 100 barrels daily, so you'll need hundreds of wells to get the production you get now from one well in a supergiant field.

When you get the stuff to the surface, you have to put it through chemical and mechanical processes to extract the nickel, vanadium and other metals that foul the refining process. You'll need more equipment and infrastructure, employing thousands of workers to produce the same amount of oil that used to require just a handful. This will be a great challenge to our organizational capacity. However, you never know what human ingenuity can provide.

One thing it can't produce is any additional easy-to-get-at oil.
Riva: That's right. ■

John Lewis Stage/Image Bank

Oilfields in Kuwait
Only 37 supergiant fields have ever been found—26 in the Middle East.

For truckers these days, there is less freight to haul and more competition. But good management will out.

The road ahead is wide open

By Barry Stavro

EVERY TIME a competitor goes bankrupt, Harwood Cochrane, 73, chairman and founder of Overnite Transportation Co., puts the failed trucker's logo up on his red brick wall. Underneath a sign that reads "Deregulation done 'em in," Cochrane has mounted 47 company logos, with room for plenty more. "I want my employees to know we're not guaranteed to be here." Cochrane laughs, but it is not a hearty laugh. More a nervous one.

The trucking industry was deregulated in 1980, and the shakeout is far from over. Last year the American Trucking Associations counted 1,533 failures, and estimated one-third of its fraternity was losing money. ATA says another 250 companies are staying in business only because the Employee Retirement Income Security Act would force them to pay huge pension fund contributions if they closed down.

And yet, despite the wreckage littering this gritty and tough industry, among the certain and profitable survivors there are now five major players: Consolidated Freightways, Yellow Freight System and Roadway Services—the so-called big three, each with about $1.5 billion in trucking revenues last year—plus a couple of smaller but beefy entries, Carolina Freight and Overnite Transportation. Analysts expect earnings of all five to grow 10% to 14% a year over the next five years.

Why them? They have distinct but well-thought-out business strategies, little debt and efficient truck fleets, and they are masters at moving less-than-truckload (LTL) shipments of under 10,000 pounds. LTL is where the money is these days. Rates for LTL shipments run about three times the price per ton of full-size truckload freight.

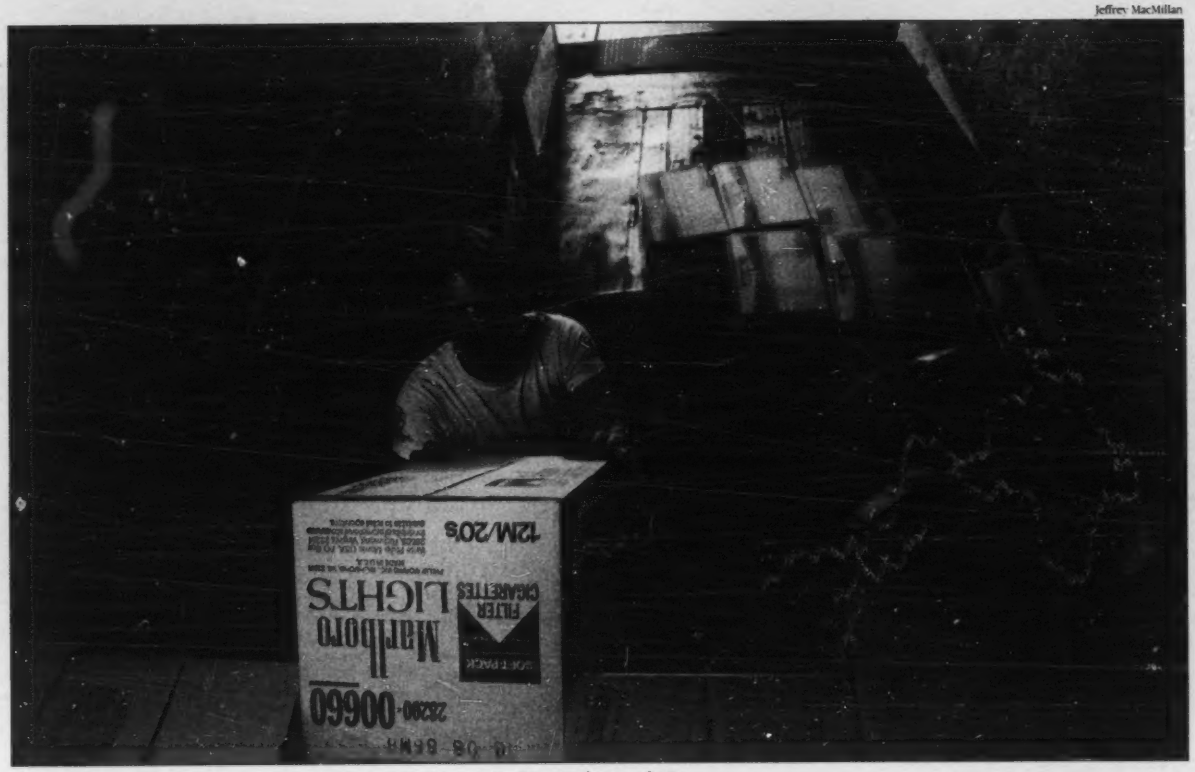
Even though the 2 billion tons of freight hauled by trucks in the U.S. last year was down 9% from 1978—a decline in heavy industries has hurt—the shift toward leaner inventories and just-in-time deliveries is ideal for those who can smartly manage smaller shipments.

These five companies, the best of

John Neubauer

Overnite Transportation's Harwood Cochrane (left) *and William Duke Jr.*
"We've always had the privilege of managing our own affairs."

Jeffrey MacMillan



A nonunion dockworker at an Overnite truck terminal in Richmond, Va.
On a given day, a truck driver may pitch in on the docks.

the lot, still haul barely 1% of all truck freight. They are growing because they already have what is needed to make the LTL business work: a sprawling, expensive network of shipping terminals fed by an extensive, up-to-date truck fleet and organized by modern computer systems that keep track of it all.

By comparison, when McLean Trucking, the nation's fifth-biggest trucker, went bankrupt in January, it was driving with a weirdly mismatched truck fleet. Overnite's sharp-eyed Chairman Cochrane passed on McLean's liquidation sale of equipment. "McLean had two types of tires, two types of wheels, at least four different types of engines in vehicles. It was an impossible situation. We have one [type of] spare tire that fits every truck we've got."

What about competition from the railroads? "The rails can't compete with you except on their main lines, Chicago-New York, Chicago-Dallas," says Carolina Freight's Chief Executive Kenneth Younger. "From Chicago to the Carolinas, forget it. Roughly 70% of the communities in the U.S. are still served by truck."

Look at Consolidated Freightways, based in Palo Alto, Calif. Each day 43 million pounds of freight move through its nationwide system of 543 truck terminals. CF can offer service to 60,000 communities because it anticipated deregulation and spent $250 million to triple its terminal network in the past decade. A typical LTL shipment weighs 780 pounds, travels 1,375 miles, is handled four times and arrives in five to six days. "We operate like the Pony Express, except we're changing drivers instead of horses," says CF President Lary Scott.

Pony Express maybe, but with computer-driven ponies. One truck might carry 50 different shipments—Diet Coke labels, chain saws, surgical gloves, Sperry personal computers. Parking spots and unloading are programmed electronically. So trucks are backed into the most efficiently situated freight bays. Freight bound for the busiest destinations is loaded in the middle of a terminal to shorten trips for forklift operators. A computer printout also tells dockworkers where each shipment goes next. This is a critical timesaver because there might be 110 trailers waiting to be loaded.

Why all the electronics? Teamsters labor costs about $21 an hour in wages and benefits. You don't use any more of that kind of labor than is absolutely necessary. Labor eats up 60% of CF's sales. Thanks to computers, CF President Scott figures his dockworkers handle 3,540 pounds of freight an hour, compared with 2,400 a decade ago.

Other efficiencies come from hauling freight in twin 28-foot trailers, legal in all states since 1982, instead of the less efficient 45-foot trailers. The twins have 25% more cubic space, and, with computer analysis, sometimes the smaller trailers can skip one step in the handling and unloading process. Saving that one step last year saved CF about $20 million.

What Carolina Freight has lacked in size ($523 million sales) it has made up with electronics even more advanced than at Consolidated. Carolina Freight, based in Cherryville, N.C. (pop. 4,800), has doubled in sales in the past five years while averaging an 18.2% return on equity. For the past two years Carolina customers have been able to call a toll-free number 24 hours a day to get both pricing information and en-route tracing of their shipments. The system logs 27,000 calls a month, and information is read back to the shipper by computerized voice. Punch in the code numbers by phone, and shipments are traced within 60 seconds. Before computers, "It could take a day and a half," says Carolina's Younger.

But while others rely on computer hardware, Harwood Cochrane's key at

Five trucking stalwarts

As other truck freight haulers go bankrupt, the five companies listed below will inevitably pick up some of the business others leave behind. Analysts expect this quintet to grow earnings from 10% to 14% a year for five years, as they make use of an efficient, nationwide network to move freight door-to-door.

Company	1985 sales (millions)	Profits (millions)	EPS	Recent price	Latest 12 months high	Latest 12 months low	P/E ratio	Strength	Weakness
Consolidated Freightways Inc	$1,900	$79.3	$2.07	30	34½	19¼	14	well-run nationwide delivery; fast-growing regional trucking group	air-freight business still losing money
Roadway Services Inc	1,600	75.9	1.90	37	45¾	27½	19	efficient nationwide network	new package system competes against UPS
Yellow Freight System Inc	1,500	55.5	1.95	35⅛	41½	16⅝	18	growth in less-than-truckload freight	diversification strategy less defined than rivals'
Carolina Freight Corp	523	14.5	2.26	37	40	20⅜	16	best computer system, can expand from its regional base	Texas trucking subsidiary still in the red
Overnite Transportation Co	470	39.0	1.42	33¼	36	16	23	nonunion, low labor costs, still has territory to expand into from its eastern base	must play catch-up in computer operations

Overnite Transportation is old-fashioned nonunion manpower. "We've always had the privilege of managing our own affairs," says Cochrane. He started his company in 1935 with $3,000 after dropping out of high school to drive a milk truck. Overnite President William Duke Jr. says his labor runs about $16 an hour in wages and benefits, compared with the Teamsters' $21 an hour. "I'd kill for those labor costs," says Consolidated Freightways' Lary Scott. Labor is one reason Overnite's 8.3% profit margin last year was double the average of the major truckers.

But hourly wages are only part of the advantage that comes from being nonunion. In most union truck terminals, Teamsters dockmen unload freight while Teamsters drivers just drive. At Overnite the drivers can help out unloading or even work as cashiers in the office, while a mechanic might fill in behind the wheel.

The Teamsters, understandably, would like to make a dent at Overnite, but have won only one organizing election involving a small group of Overnite drivers in Chicago. Cochrane keeps employees happy with perks—like the right to buy up to 300 shares of stock a year on option. Overnite's stock has moved from 2¼ in 1980 to 33 recently, so there are plenty of takers.

Overnite's labor edge hasn't been ignored by the competition. Consolidated Freightways, Roadway and Carolina Freight have all set up nonunion trucking companies in the past couple of years to compete in shorter-haul (250 to 500 miles) markets. Here the competition is usually smaller, family-owned firms, which, for the most part, can't match the big players in computer sophistication or financial muscle. After just three years, Consolidated Freightways' three regional trucking companies might hit $150 million in sales this year, with operating profits of $15 million.

As good as the less-than-truckload business has been for these guys, several companies are diversifying into related businesses. The most adventurous is Roadway's move to take on mighty United Parcel Service in the small-package business with its year-old Roadway Package System. RPS, a nonunion operation, is trying to pick off some of UPS' business by offering better service. How? RPS' sorting terminals are highly automated, with overhead lasers that scan the bar codes on every package as it passes on the conveyer belt. That enables RPS' shippers to call and get up-to-the-minute tracing reports from a computer. UPS, meanwhile, says it can answer a trace request within an hour.

Yet UPS ($7 billion sales) so dominates the small-package market that this year RPS' operating losses might run $18 million on $70 million sales. Still, smart management invests for the future even at the cost of current earnings.

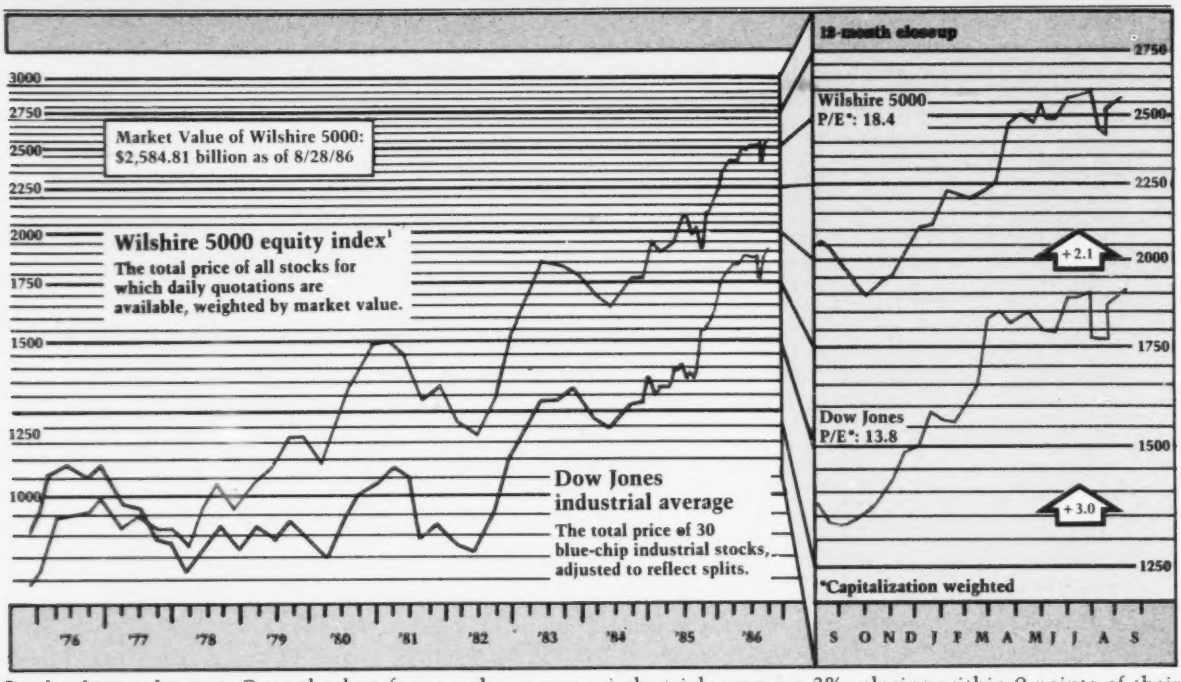
Notwithstanding deregulation, rising insurance and fuel costs, plus the mushrooming of costly state axle taxes, trucks can still move freight from one point to another as efficiently as any method of transportation. But—as the defunct logos on Cochrane's walls illustrate—it is not every management that can cut it. ■

John McDermott

Consolidated Freightways' Lary Scott
Pony Express gone computer age.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market Value of Wilshire 5000: $2,584.81 billion as of 8/28/86
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
12-month closeup
Wilshire 5000 P/E*: 18.4
Dow Jones P/E*: 13.8
+2.1
+3.0
*Capitalization weighted
'76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86
S O N D J F M A M J J A S

Institutions miss out. Over the last four weeks energy stocks gained 15.8%, far outpacing the Wilshire index' 6.2%. Leading the upswing were Exxon and Royal Dutch, both of which set new highs and both of which are underweighted in professionally managed accounts (FORBES, *Aug. 25*). Royal Dutch is up more than 50% over the past year.

What were investors buying other than oils? Mostly blue chips. During the last ten trading days the Dow industrials were up 3%, closing within 9 points of their early July peak. The New York Stock Exchange ended the period up 2.4%. That put it just 0.1% off a new high reached on the previous day. Over the same stretch the not-so-blue-blooded Nasdaq and Amex were up 0.8% and 0.7%, respectively.

A cut in the discount rate by the Fed followed by a drop in the prime rate by large banks could enable Wall Street to continue its climb into unknown territory.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	6.2	6.9	7.0	6.9	4.5	3.0
in last 52 weeks	31.5	29.7	42.3	32.7	16.6	28.6

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	7.5	2.7	3.0	4.2	3.2	4.1	5.9	4.0	4.1	4.5	4.8	1.9
in last 52 weeks	34.5	40.1	57.1	35.9	20.9	38.8	30.7	39.6	52.4	43.4	45.2	23.5

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created.
[2]Based on sales.
[3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

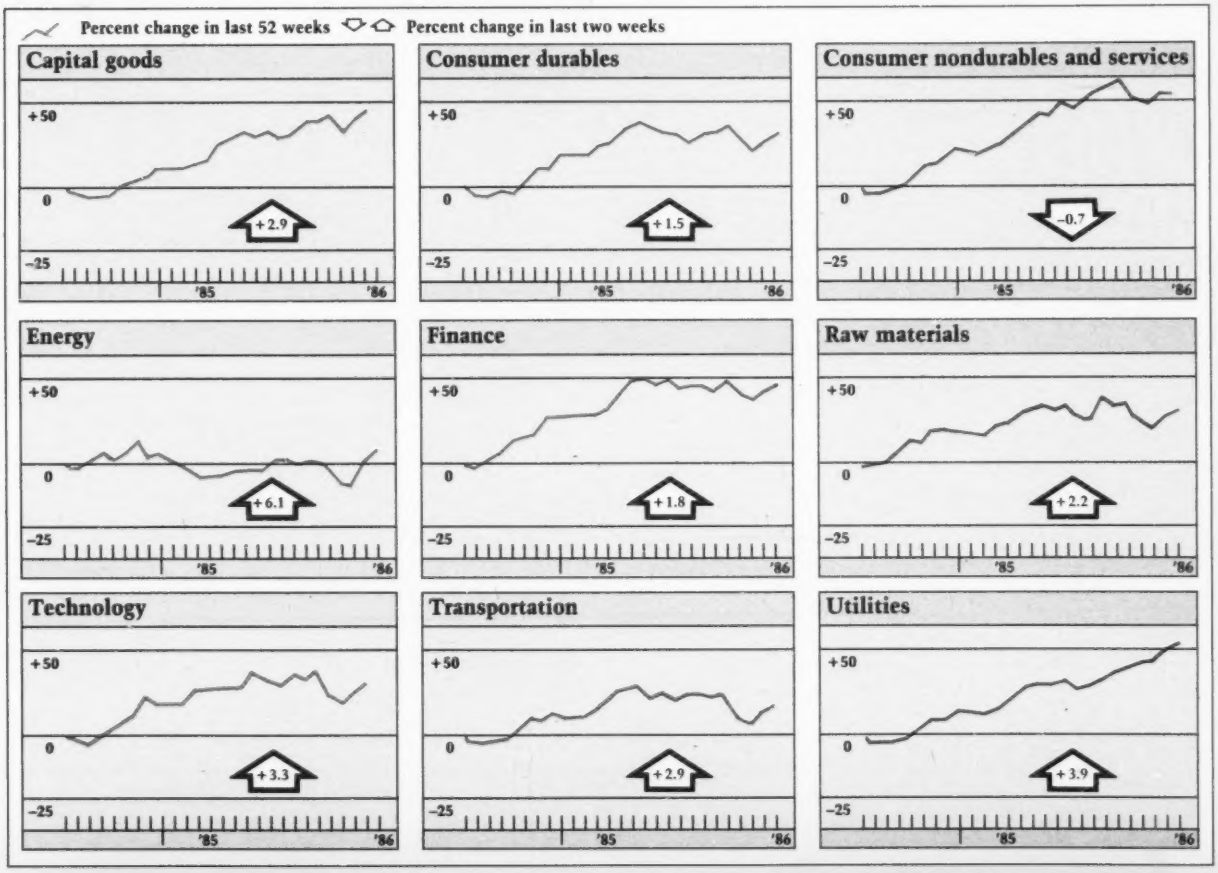
Note: All data for periods ending 8/28/86. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where The Action Is

Weak spot in a strong market. The consumer nondurables group, with a 0.7% two-week decline, was the only Wilshire sector to lose ground over the past two weeks. Despite this small setback, consumer nondurables still holds the best 52-week record—a gain of 47.9%, vs. only 31.5% for the Wilshire index. The recent decline in the group was broad but shallow, with only a few sharp losses: Adolph Coors, which fell 12% in the two-week period, and Marion Labs, which fell 11%. Marion, at 62 times earnings, has nearly tripled in less than a year on hopes for its new hypertension drug.

The strongest of the nine sectors was energy, which gained 6.1%. Five other sectors outperformed the 2.1% advance in the Wilshire index.



What The Analysts Think

Too late to help. The oil market appears to be stabilizing, and Wall Street is betting that things will improve for this industry. But security analysts don't think the recovery will come fast enough to boost the 1986 earnings of many oil firms. During the last two weeks analysts cut their 1986 estimates for energy stocks by 3.3%.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.73	17.0
1986 estimates	3.36	13.8
1987 estimates	3.96	11.8

Rank based on change in estimate	Sector	Estimated 1986 EPS	Estimated 1986 P/E	% change in 1986 estimate in 2 weeks	% change in 1986 estimate in 4 weeks
1	Utilities	$3.27	11.2	-0.22%	-0.53%
2	Consumer durables	3.94	10.5	-0.48	-1.20
3	Consumer nondurables	2.13	17.2	-0.57	-0.61
4	Raw materials	1.81	17.0	-1.26	-2.18
5	Finance	3.31	11.4	-1.32	-2.85
6	Technology	2.56	15.0	-1.60	-2.19
7	Transportation	1.61	17.3	-1.76	-6.57
8	Capital goods	2.41	16.3	-1.76	-3.67
9	Energy	2.13	14.9	-3.27	-4.71

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 8/28/86. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.